Faculty Working Papers

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A Comparison of Four Manufacturers Sales Taxes and Two Retail Sales Taxes - Ghana, Kenya, Tanzania, Zambia; Barbados, Iceland

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The question of the most appropriate form of sales tax has received widespread attention in recent years, in both industrialized and developing countries. This paper seeks to throw additional light on the issue by a comparison of six sales taxes. Four are manufacturers sales taxes used in tropical African countries, Ghana, Kenya, Tanzania, and Zambia, and two are retail sales taxes, in Barbados and Iceland.

Introduction of the Taxes

All of these taxes were introduced between 1960 and 1974 and therefore belong to the "modern" generation of sales taxes. All countries except Iceland are British Commonwealth countries. The first tax to be introduced was in Iceland, influenced by experience in the Scandanavian countries, imposed at a low (3%) rate in 1960 as a revenue measure. The rate was gradually raised, particularly in 1973-74 when customs revenue was lost as a result of Iceland's participation in EFTA. The first of the Commonwealth African countries to impose the tax was Ghana, in 1965, urgently in need of revenue. The Act imposed a multi-stage turnover tax, but this was in fact (but not by law) modified into a manufacturers sales tax before it became operative. In East Africa, the three members of the East African Community were restricted in their ability to adjust income tax and customs-excise duties by agreement on common policy, but were free to impose sales taxes, and Uganda took the lead in 1968, followed by Tanzania in 1969. These two taxes, designed by an adviser from Israel, were unusual in that the tax was imposed separately by BTN category (as is true in Guyana also). Kenya debated the tax for several years, and finally in 1973, adopted an act greatly simplified compared to those of the two neighboring countries. The tax was sought primarily to gain additional revenue and to increase elasticity of the revenue system. In the same year Zambia introduced its sales tax of limited scope; it was influenced by Kenya's experiences but sought to experiment by taxing only a few commodities initially rather than all. The scope has been progressively broadened. All three countries adopted the manufacturers sales tax for administrative reasons. The last of the six was Barbados, which imposed the tax in 1974 to offset the loss in revenue from elimination of intercountry duties within CARICOM. The retail form was adopted in view of the very limited manufacturing and the desire to include wholesale and retail margins.

Overall Coverage

All of the taxes except Zambia's are general in coverage; Zambia's applies to all dutiable imports and to specified domestically produced goods. In practice, most domestic industries are now covered. The taxes of Barbados and Ghana differ from the others in that imports are not taxed--a source of obvious leakage. Kenya, after changing policy, now requires payment of tax on all imports (except of exempt commodites) but allows refund of tax on materials used in manufacturing. The other countries allow importation of materials and parts by registered firms tax free under certificate.

All of these levies are designed to be single stage taxes, but the extent of exclusion of producers goods varies substantially. Materials and parts becoming physical ingredients are universally excluded from tax through import

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1/The author is greatly indebted to the officials of the tax departments and Ministries of Finance of the six countries for their assistance

TABLE I

BASIC FEATURES OF SIX SALES TAXES

	Retail Sales Taxes		Manufacturers Sales Taxes			
	Barbados	Iceland	Ghana	Kenya	Tanzania	Zambia
Year Introduced	1974	1960	1965	1973	1969	1973
General or Specified	General	General	General	General	General	Specified Categories
Imports Covered	No	Yes, Except by Registered Firms	No	Yes, All	Yes, Except by Registered Firms	Yes, Except by Registered Firms
Designation of taxed items	General	General	General	General	BTN Category	BTN Category
Designation of exempt items	BTN Category	Specified	Specified	BTN Category	BTN Category	All except those specified as taxable
Basic Rate (%)	5	20	11.5	10 1/	12 1/	10 1/
Other Rates	None	None	5, 7 1/2, 10 some specific	20 2/, 15, 30 some specific	24 2/, 17, 40, plus 13 others plus specific	15, 20, 30 motor vehicles 4,8,12,17 one specific rate
Separate collection of tax at the retail level	Yes 5/	No 3/	--	--	--	--
Sales tax revenue as % of total tax revenue 1975-1976	6	32	5	25	38	14
% of sales tax revenue collected on domestic sales	100 4/	97	100 4/	60	84	36
Number of registered firms (approx)	6000	7700	1250	1600	1000	420
Population (approx) 1975	250,000	225,000	9 million	12 million	12 million	5 million
Estimated per capita GNP (US $s)	$1000	$5400	$266	$155	$113	$384

1/ Many exceptions; basic rate of limited significance.
2/ Many semi-luxury goods.
3/ By practice, not by law.
4/ Imports not taxable.
5/ By law.

or purchase under certificate (and, in Kenya, refund of tax paid). Zambia limits the exemption to materials in categories specifically designated for each taxed commodity, but in fact excludes most materials. Virtually all farm inputs--seed, feed, fertilizer, machinery, and some other items--are exempted outright in all six countries, partly specifically to aid agriculture, as for example in Zambia and Kenya, partly because of political pressures of farm groups. Iceland exempts virtually everything used in the fishing industry.

The tax treatment of industrial machinery, however, varies, as it does in the rest of the world. Barbados and Ghana seek to exclude all of it; Tanzania exempts some; Zambia, while not taxing when domestically produced, does tax it at importation. Iceland and Kenya apply the tax; Kenya in recent years, like Zambia, has also commenced to apply customs duty to industrial machinery to lessen capital intensivity in production. The common tendency in developing countries to overvalue their currencies may justify taxation of capital equipment, while there is strong objection to such taxation in industrialized countries. The tax treatment of fuel is complex, but the category is at least partially taxable in all of the countries except Barbados; most is not taxable in Ghana and Zambia. The latter taxes all electricity.

The tax treatment of services is somewhat limited; only the tax in Iceland applies to all services except those excluded--but the exclusion list is lengthy: real property construction on the site; all transport; rentals; hospitals; all professional services; water; computer service;. Zambia singles out hotels, restaurants, laundry and drycleaning for taxation; Barbados employs a separate tax on hotels and restaurants, collected in conjunction with the sales tax.

All of the taxes provide some exemptions of food. All food is exempt in Barbados and Kenya (the original plan to exempt only basic foods was abandoned for political reasons). Of necessity unprocessed domestically produced food in the other African countries is exempt since it does not pass through a manufacturing stage. Tanzania, Ghana, and Zambia tax much, but not all, processed food, depending on the importance of the items in the diets of the poor, and Zambia taxes some imported unprocessed food. Medicines are not taxed in Kenya, Tanzania, and Zambia, partly in the other countries, and books, magazines, and newspapers are universally free of tax. Some other exemptions are noted in Table II. But in general, the taxes are relatively broad in coverage, in Zambia much more so on imported than on domestic goods.

Rates

The two retail taxes have single uniform rates--5% in Barbados, 20% in Iceland, the latter one of the highest in the world. Ghana has an unusual structure, a basic 11.5% rate on non-excise -taxed goods; 7.5% on goods also subject to excises, plus iron reinforcing rods; 10% on liquor and electricity; 5% on cement; and specific rates on tobacco products, diesel oil and fuel oil.

Kenya, which has a basic 10% rate, applies a 20% rate to a wide range of luxury items including consumer durables, jewelry, cosmetics, etc., 15% to wine, and motor vehicles, 30% to tobacco products, and specific rates to beer, motor fuel, oil, grease, and electricity. Tanzania has far more rates and much higher rates, with a basic figure of 12% on many foods and items of widespread household use; 24% on items regarded as luxuries; 25% to 50% on

TABLE II

TAX TREATMENT OF MAJOR CATEGORIES

	Barbados	Iceland	Ghana	Kenya	Tanzania	Zambia
ood	X(all)	Basic X	Unprocessed X[1/]	X(all)	Unprocessed X[1/]	Unprocessed X[1/]
everages	X	T	T	T	T	S
edicines	T	T	T	X	X(most)	NT
ooks, Magazines, Newspapers	X	X	X	X	X	NT
tationery	X	X	for schools, X	T	T	NT[2/]
uilding materials	X(most)	T	T	T	T(most)	NT(most)[2/]
uel	X	T	X(indus., etc.)	T	T(most)	NT[2/]
otor vehicles	X	T	S	T	T	T
ommercial Transport Equipment	X	T	X	T	X	NT
aterials, parts	X	X	X	X	X	X(specified categories)
arm feed, seed	X	X	X	X	X	NT
ertilizer	X	X	X	X	X	NT
esticides	X	X	X	X	X	NT
arm machinery	X	X	X	X	X	NT
ishing equipment	T	X	T	T	T	NT[2/]
and, stone	X	T	T	T	X	NT
ractors	X	T	T	X	X	NT
harcoal, firewood	T	T	X	X	X	NT
ndustrial machinery	X	T	X	T	X(some)	NT[2/]
mall radios	T	T	X	T	T	T
xports	X	X	X	X	X	X
otels, restaurants	S	X	NT	NT	NT	T
ervices generally	NT	T, except specified	NT	NT	NT	NT

1/ Some processed items also X.
2/ Some items taxed on importation, not domestic production.

T=taxed S = Special tax X = Exempt NT = Not specified as taxable.

on motor vehicles, 50% on most liquor and cigarettes, a number of high rates on textile products not produced in the country (and thus protective, particularly against imports from Kenya, not subject to customs duties), and a large number of other rates, each on a few items. The rate structure has become very complex, as the tax has been used as a protective and sumptuary instrument.

The Zambia rate structure is much simpler, with a basic rate of 10%, 15% on a few items, 20% on footwear, clothing, and several items regarded as luxuries, 30% on perfumery and cosmetics, and rates from 4% to 17%--very low figures--on motor vehicles according to engine capacity. The variation applies only to domestic goods; all dutiable imports are taxed at 10%

Revenue Importance

The rate levels, coverage, and exemptions influence the revenue importance; the figures range from 38% of tax revenue in Tanzania and 32% in Iceland to 5% and 6% in Ghana and Barbados, neither of which tax imports. In the other two the tax is a significant element in the overall tax structure. The percentage of tax collected on domestic sales as distinguished from imports is lowest in Zambia--36% (which taxes far more imports than domestic goods). The Tanzania and Kenya figures are surprisingly high--reflecting in part the drastic restriction of imports into Tanzania (for foreign exchange reasons), the extensive growth of Kenya manufacturing.

The Number of Registered Firms

The two countries with retail sales taxes have for more registered firms than the others despite their much smaller population, as shown in Table III.

There is one registered vendor for every 42 persons in Barbados and for every 30 persons in Iceland, compared to 1 per 12,000 in Tanzania. The difference reflects in part the difference in commercial economic development in the two sets of countries, but partly the difference between the two forms of tax. But the experience of Ghana, Kenya, and Zambia suggest that a developing country with an established manufacturing sector can expect to have roughly one registered manufacturer for each 8,000 population.

In all of the countries, registration is required of firms in the categories subject to tax. Thus in Barbados and Iceland all retailers are registered (and in fact wholesalers and manufacturers, since they make some sales at retail), and in the other four countries, all manufacturers except certain small firms. Kenya and Zambia set the exception figure by law, at 100,000 Kenya shillings and 10,000 Kwacha respectively (about $US 12,000 and $15,600 at current official exchange rate). Ghana and Tanzania have no set figure, but do not register firms so small that control is believed to be impossible. Tanzania, like Uganda, also taxes some firms on the sales to them instead of their sales, and does not register them. Firms may apply for this privilege and it will be granted if there is no revenue loss. Some form of exception of small craft producers is imperative for successful operation of a manufacturers sales tax. The two retail sales tax countries provide no similar exemptions, but Barbados does not in fact succeed in registering the itinerant sellers on the beaches.

All countries require firms to fill out a registration form and then issue a registration number.

Administration

The countries fall into two patterns: in Ghana and Zambia, following Commonwealth traditions, sales tax administration was assigned to Customs and Excise. In Ghana, the sales tax is administered by a separate section, under a Deputy Controller, with its own personnel (about 30). In Zambia, there is less separation from customs operation, although one person in headquarters has general jurisdiction over the tax, and in the larger custom houses separate personnel are assigned to sales tax, but they have a customs officer background.

The other four countries assign sales tax to the internal or inland revenue department. In Tanzania and Kenya the tax could not be assigned to Customs and Excise, which was (and at the moment still is) an agency of the East African Community. In Tanzania the sales tax predated the transfer of the income tax from the EAC, and so a separate staff was set up, which in 1973 inherited the income tax as well. In Kenya, a separate sales tax staff, under an Assistant Commissioner, is essentially coordinate with the income tax administration. Iceland and Barbados deliberately assigned the tax to inland revenue in the belief that operation was more closely related to income tax than to customs--a view that has strong validity.

Thus there are separate sales tax units and staffs in Barbados, Ghana, and Kenya, with some separation of personnel in Zambia, and integration with the income tax staffs in Iceland and Tanzania.

The countries differ in the degrees of centralization. Kenya is completely centralized at the moment, but plans offices in Mombasa and two other cities to reduce travel cost. Barbados assigns inspectors by area but operations are centralized in view of the small size of the island. Iceland's operation is highly decentralized, with 9 district offices and 24 collection offices handling income tax as well, but over two thirds of the tax is paid in the Reykjavik area. Tanzania operations are decentralized, with 21 regional offices and 80 internal revenue offices in total, the records being kept in these offices. Records are also kept in the local offices in Ghana. In Zambia the tax is administered through the ports of entry (there are 10, but 4 handle most of the tax), but duplicate records are kept in headquarters in Livingstone.

All of these countries have computers--in general third generation ones (for example, IBM 360 in Iceland, 370 in Zambia)--but only Iceland uses the computer for sales tax purposes, and then only partially, to provide the listing of registered firms, to make assessments, and to address return forms in larger jurisdictions.

The staffs vary widely in training and adequacy. Of the African countries, Kenya has the most adequate and one of the better trained staffs, under a Deputy Commissioner of Taxes. There are two assistant commissioners, a senior collector and two senior inspectors, 5 inspectors Grade I (8 authorized), 12 inspectors Grade II (15 authorized), 6 collectors Grade I and 4 collectors Grade II. Thus there are 25 authorized inspectors for 1,600 firms, or one to every 64 firms--a figure that compares very well with industralized countries.

The aim is to recruit persons as inspectors who have university degrees in economics or commerce, plus some persons with professional accounting background. The initial trouble to find personnel has been overcome.

In Tanzania, the inspection staffs are located in the regional offices, with a few auditors in Dar es Salaam. The inspectors, except for a few senior ones, are not university graduates and have learned through on-the-job training. The internal revenue officers and the regional finance officers have been promoted on the basis of experience. While some recruiting is now done at the university level, most new employees are recruited at the secondary school graduate level.

The staff in Zambia consists of persons with customs officer training (recruited at the secondary school level) and in general have no accounting or business background. Ghana likewise recruits from secondary school graduates, increasingly, from commercial schools, where bookkeeping training is provided. But they have little training in accounting, and work approaching true audit is impossible.

The two retail sales tax countries, like Kenya, seek to recruit persons with knowledge of accounting. Barbados, with a staff thus far of 5, and 2 vacancies, has recruited persons with training in accounting, gained by articling with public accounting firms or from courses in the United Kingdom. The persons do inspection, information, and enforcement work. Iceland, where the staff handles both sales and income tax work though with some specialization, recruits at the university graduate level, with the BA in Law or Economics, and trains in accounting. Unfortunately Civil Service salaries are not fully competitive, and trained persons are often lost to the private sector. There are at present 18 in the investigation department, located in Rekjavik. The Director of Internal Revenue has a university degree in Accounting, while the head of the collection office is a lawyer.

Operation of the Taxes

All six taxes are collected on the basis of returns, all required on a monthly basis, by the dates noted in Table III. Neither Ghana nor Zambia supply return forms; the firms must buy their own, of a prescribed nature. Only Iceland mails the forms out monthly (addressed by the computer for the larger areas); the others make theirs available in batches. The forms differ widely, from very simple ones in Barbados, Iceland, and Kenya (which does not even require figures of exempt sales), to detailed ones, calling for sales by type of good, invoice numbers, etc., in the other three. Zambia requires both a return form and a sales tax entry form, and details of all sales--necessitating a number of pages from the larger firms. Ghana requires copies of invoices. In Ghana the tax is paid to a bank and the duplicate deposit slip is filed with the return, together with a copy of each invoice. In Zambia, payment is made to the cash office in the custom house, the return filed separately. In the other countries, payment is made by check or cash, in person or by mail, together with the filing of the return. In Iceland, payment is made to the local collection offices, distinct from the district offices.

TABLE III

OPERATIONAL FEATURES OF THE SIX SALES TAXES

	Barbados	Iceland	Ghana	Kenya	Tanzania	Zambia
Exemption of firms with annual sales under:	No X	No X	No formal figure	Ks100,000 ($US 12,000)	as proposed by inspector	K10,000 (US$ 15,600)
Jurisdiction over administration	Inland Revenue	Internal Revenue	Customs & Excise	Sales tax unit	Tax dept.	Customs & Excise
Centralized administration	Centralized, but inspectors in areas	Decentralized	Decentralized	Yes[1]	Decentralized	No; Ports of Entry
Separate staff	Yes	No, integrated with income tax	Yes (with excise)	Yes	Partial integration with income tax	Partial
Integrated sales and income tax audit	No, but plans	Yes	No	No	Yes, but some specialization	No
Trained auditors	Yes	Yes	Limited training	Yes	Limited training	No
Computerization	No, but plan; ledger cards	Listing of firms mailing returns and assessments in larger districts	No, ledger page	No, ledger sheet	No, ledger kept in local offices	No, file in custom house, ledger page in hq.
Tax return interval	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly
Due date, following month	15th	25th	21st	End of month	15th	21st
Mail return forms to firms.	No	Yes	Do not supply forms	Issue batch	No, made available	Do not supply return forms
Type of return form	Simple	Simple	Detailed, and file invoices	Simple	Relatively detailed	Very detailed information
Copies of return required	3	3	3	1	3	7
Delinquency percentage, initial	Not known yet	10-12%	Substantial	No data yet	Not available; apparently low	Est. 50%
Enforcement - initial	Not developed yet	Notice	Letter	Letter	Officer contacts	Call by officer

Kenya, like the states of the United States, requires only one copy of the tax return; Zambia requires 7 copies; the others three.

Delinquency

Different systems are used to ascertain delinquents (nonfilers); none use computers for the purpose as yet, though computers play some role in Iceland.

Barbados: No system is yet developed, though check can be made from ledger cards. Store to store check is being made to insure that firms have registered and have filed returns.

Iceland: Two days after the due date, the returns are checked against the master list in the collection office provided by the computer. The basic delinquency lists, however, are made up at three month intervals in the district offices, by checking the master list against the lists of payments. Late filing penalties are assessed against those that filed late, and assessments of tax against those that have not yet filed.

Ghana: Check is made in the local office to find those firms for which there is no ledger entry.

Kenya: Check is made on the ledger sheets each month to ascertain those firms for which there is no entry for the month.

Tanzania: Check is made monthly in the local offices to find those firms for which there is no return.

Zambia: Check is made by the Custom ports to ascertain which firms have not filed, usually by checking the returns against the master list of firms. Headquarters, which records the payments in a ledger book, also checks to ascertain the nonfilers, but leaves the initiative for action to the local offices.

In these countries the check is made within a few days after the due date.

Most of these countries have not compiled data of nonfilers as a percentage of accounts. Iceland reports a 10% to 12% figure. One custom house in Zambia reports nearly 50%.

The initial action is taken by the local offices, except in Kenya, where the system is completely centralized. Barbados has not yet developed a formal system. In Iceland, Ghana, and Kenya a form letter is sent to the firm requesting filing. In Tanzania, the internal revenue officer contacts the firm by phone, visit or letter, and a similar procedure is followed in Zambia. As is typical, most of the firms file and pay--but there is a hard core that does not--usually smaller firms hard pressed for cash. In Iceland, the collection office threatens to close the business by legal action (and does in a few cases) Ghana ultimately obtains a distress warrant and seizes the property. Tanzania, after assessing the tax, obtains a court order to force collectin; in Zambia legal proceedings are initiated, the Controller lacking power to seize property or close the business. Kenya has not yet taken action but plans to begin criminal prosectuion once all firms are familiar with the tax.

There are two difficult problems. First, some of the firms do not pay because they have no funds, and governments are reluctant to force them out of business. Secondly, some of the nonpayers are government-owned firms, and frequently there is no way the revenue department can seize or close down a government-owned and operated hotel, for example, and the management know this.[1/] Solution to this very real problem can be obtained only at top levels of government.

Automatic Penalties

Governments long ago discovered that effective enforcement is aided by provision in the Act for automatic (without court action) application of penalties for late filing. Tanzania, with an automatic 20% penalty + 1% a month, is the most drastic; the Iceland rule is 2% a day for 5 days, plus 1.5% a month; Barbados applies a 10% penalty with a $10 minimum + .5% a month, Kenya 2% a month, Zambia 2.5% a month. Only Ghana has no automatic penalty and must use criminal prosecution. There are, of course, criminal penalties for violation of the Act in all the countries, but these are rarely ever used.

Information

Barbados, Iceland, and Kenya provide relatively detailed information booklets to the registered firms. The other three provide general instructions and answers to questions, but the information is much less detailed.

Inspection and Audit Programs

None of these six countries yet has a systematic overall audit program with substantial coverage and scientific selection of accounts for audit, although there are plans for such systems. As distinguished from true audit, which seeks to ascertain the accuracy of reported figures by utilizing external data, norms, and the like, Ghana and Zambia have frequent inspection, in which officers (who have little knowledge of accounting) check data in the returns against the records from which these returns were prepared. Thus, if the returns show taxable sales of 15,000, do the sales records and invoices show this same figure? Stress is placed on invoices, per se; Ghana requires that they be issued from numbered books purchased from the government.

In Kenya, inspectors have been busy thus far simply checking refunds, giving information, etc. Under present plans, once the audit program is under way, each manufacturer will be subjected to a complete audit every two years, with briefer intermediate checks. In Tanzania, all returns are examined in the district offices, and if there is any doubt, an inspector visits the firm. There are few persons competent to make a true audit. There are plans, however, for improved training and audit programs.

Iceland has the most effective audit program of the group at the moment. Some inspection is done at the district office level, but actual audit is done by the investigation unit in headquarters. There is no broad audit coverage,

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[1/] The problem is particularly difficult if the government-owned business is out of funds.

but a substantial amount is done, some joint of sales with income tax, some separately. Recently selection has been primarily by business category--all car dealers, for example. Invoices are expected in larger firms. Detailed information is required on exempt sales, including information on markup and spoilage.

Taxable Price

With most of the taxes, tax applies to actual selling prices on domestic sales, duty paid value on imports. Ghana requires inclusion of the excises on excisable goods. Only Zambia requires adding markups, designed to apply the tax rate to a figure approximating the retail price. On domestic goods, the taxable price is the factory cost plus 25% or the retail selling price (although the tax is collected from the manufacturer), whichever is higher. Almost always the retail price alternative is higher. On imports, tax applies to value for customs duty purposes plus customs duty plus 20% of the value for customs duty plus 25% of the sum of these three items. In Iceland, on imports for use by the importer, tax applies to duty paid value plus 10%.

In no instance does the taxable price include the amount of the tax itself. Discounts actually given are usually deductable, and bad debts in some instances.

Merits and Criticisms of These Taxes

In general all six of these taxes have become accepted as permanent elements in the tax systems of the respective countries, and basically all are acceptable in structure, given the environment. There is perhaps greatest enthusiasm for the taxes in Kenya and Tanzania, where they yield about one third of the tax revenue. They are regarded as highly productive and the source of few difficulties. The Tanzania levy has higher overall rates and is used in part as a protective and sumptuary device; the Kenya levy is simpler and regarded as more strictly a revenue measure.

The tax in Iceland, the largest revenue source, is also widely accepted in a country in which even the labor unions prefer sales taxes to income taxes. The debate in Iceland is almost solely over the question of whether it should follow the other Nordic countries in shifting to the value added form.[2/] The Barbados tax, the newest one, and the only one quoted separately to the consumer, created the greatest public outcry, but this has died down. The only issue now is whether the tax might preferably be imposed at the wholesale level rather than the retail level.

The tax in Ghana is not highly productive of revenues but has not been subjected to great criticism. In Zambia, the tax, still in experimental form, has become a significant revenue producer, and there is some sentiment for converting it into a generalized manufacturers sales tax.

In none of the countries is there criticism of the tax on the grounds of regressiveness, the traditional complaint in many countries. The exemption of

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2/ Finland has not shifted to a complete value added tax. In Iceland, a government committee is now considering a proposal to change to the value added form.

basic food, by far the largest item in the budgets of the lowest income groups, and the use in Kenya, Tanzania, and Zambia of higher rates on luxury goods, have minimized complaints on an equity basis. The relative equality of income in Iceland and the widespread support of indirect taxation in the country lessen criticism.

There are, however, certain defects noted in the countries:

1. Lack of trained personnel for inspection. In all of the countries, though to a lesser extent in Barbados and Kenya, the inadequacy of trained personnel for an effective inspection and audit program is recognized. This is true even in Iceland, a country with a well educated population and high civil service standards. It is particularly true in Tanzania and Zambia, with a severe shortage of personnel trained in accounting. In both Zambia and Ghana the location of sales tax administration in Customs and Excise has resulted in failure to recognize the need for personnel trained in accounting. Barbados and Kenya have plans for an effective audit program, but they are not yet implemented.

2. The lack of records on the part of smaller firms, especially family businesses, impairs effective control of the tax. There is greatest concern over this problem in Barbados and Iceland, with retail taxes and no exemption of small firms. In Barbados, there are a number of itinerant firms selling taxable products. Some do not register; others register and buy tax free for their own use without accounting for tax. Small rural stores buy from vans without purchase invoices, and the sellers do not issue sales invoices. Iceland likewise expresses concern about evasion by smaller firms, under the pressure of the very high (20%) tax rate. Revenues are substantially protected by the fact that 4% of the firms pay 55% of the tax, 20% pay 80% of the tax. The oil companies, the state liquor monopoly, and the coöperatives are the largest payers. Even with the manufacturers sales tax in Ghana, there is concern with poor records of the smaller firms. Less concern is expressed in the other three countries.

3. Concern is expressed about the demand for more and more exemptions and deductions. In Barbados, for example, there is pressure to allow deduction of trade-in allowances and to exempt coffins. Iceland expresses concern about the vicious cycle of a high rate leading to demand for more exemptions, which reduce yield and complicate control. The Kenya government exempted a much broader range of food than the Ministry sought.

4. While these levies are all basically single stage, some cascading occurs (the least apparently in Barbados), as certain purchases for business use are taxed without subsequent credit. Greatest concern is expressed in Iceland, where an estimated 33% of the tax strikes business sector purchases without credit or refund. The effects on exports are feared, since all EEC and most EFTA countries now minimize the cascade element. This is the primary reason for serious consideration of a value added tax in Iceland (plus the belief that evasion would be lessened through collection of much of the tax at import, the desire to harmonize with other EFTA countries, and the hope that income tax administration would be strengthened). Tanzania also expresses concern over cascade elements in the tax. By contrast in Kenya, taxation of capital equipment is regarded by the government as desirable to increase the relative use of labor.

5. The relationship of the tax on imports and domestic goods is of concern in several countries. The failure to tax imports at all in Barbados invites importing by final consumers and clearly needs correction. The tax in Ghana likewise does not apply to imports, with consequent revenue loss and possible distortions. The tax in Zambia applies to all dutiable imports but to far fewer domestic goods, thus constituting an additional protective mechanism. Rates differ on imports and domestic products for many goods.

Kenya has changed policy on tax treatment of materials. Initially registered firms could import or buy materials tax free under certificate. But there was substantial unreported selling of the materials for taxable purposes, and so imports and purchases of materials were made taxable, with subsequent refund. But this has resulted in so much more work in refunding and excessive tying up of working capital that the government now plans to exempt outright major types of materials not also used for consumption purposes.

6. Some other adverse effects are noted. In Barbados, small shops selling only food and cigarettes have quit handling the latter to avoid the need to file tax returns. The Iceland rule, common with most sales taxes, that on real property contracts fabrication work on the site is not taxable discourages prefabrication.

7. Several countries, but especially Iceland and Zambia, are concerned about the tendency of sales tax increases to lead to wage increases, destroying the anti-inflationary effectiveness. The problem is most acute in Iceland, with a high rate of inflation and general indexing. But exclusion of the sales tax element from the cost of living index is regarded as politically impossible and is made more difficult by the fact that the tax element is not quoted separately from the price.

8. The tax in Zambia is still in a somewhat experimental, evolving stage, with coverage limited (on domestic products) to specified categories and with imports and domestic goods treated differently.

9. The Tanzania tax, like that of the Republic of Guyana, has far too many different rates, with very fine distinctions that cannot possibly be justified on any scientific basis; there are, for example rates of 10, 12, 15, 17, 18 percent (plus others).

Concluding Observations

These six sales taxes suggest several general conclusions:

1. A sales tax can be a very significant revenue source in developing countries, if imports are included, the base is relatively broad, and higher rates are used on luxury goods. But careful attention to the structure of the taxes is necessary if the desired results are to be attained.

2. Sales taxes at the manufacturing level function extremely well in developing countries if properly structured, without encountering the distortions of distribution channels created by such taxes in highly industrialized countries such as Canada. The manufacturing level facilitates the use of several different rates and minimizes the number of taxpayers. A single rate is almost imperative with a retail tax.

3. Retail sales taxes can be operated successfully when retail sectors are more commercialized and sophisticated, but with more problems with small firms.

4. A general problem is the failure to develop adequate audit programs, with reliance on excessively detailed reporting and routine inspection instead of true audit. Delinquency, in the sense of failure to file on time, is also high, a result in part of inadequate penalties for late filing.

5. The need for simplicity--in tax structure and operation--is very great but often ignored. Kenya offers the model of the manufacturer's sales taxes; the retail taxes are relatively good from a simplicity standpoint.

6. There are serious dangers in placing sales tax administration under the jurisdiction of Customs and Excise, unless a separate unit with its own personnel selection is utilized, because the background and training of customs personnel are not suitable for a tax the effective control of which depends on knowledge of accounting.

7. Exemption of basic foods appears to be effective in lessening complaints against the taxes on equity grounds.

Fig. 1 R.S.T (1)

BARBADOS

DEPARTMENT OF INLAND REVENUE

RETAIL SALES TAX ACT, 1974

RETURN AND REMITTANCE FORM

....
Name of Retailer

Address: ....

....

I hereby certify that the information in this return is true, correct and complete, and that the amount now remitted represents sales tax for the month shown below.

....
Signature of Retailer or Authorised Officer.

Account Number.................... *Date*............................

See Notes at back for Guidance

Proceeds from Exempt Goods	Taxable Proceeds of goods not exempted	5% Sales Tax on taxable proceeds now remitted	For Month of	Cumulative total of tax paid to Commissioner
Dollars only	Dollars only			

INSTRUCTIONS TO RETAILERS

Complete this form in triplicate each month (rubber stamp may be used to show name and address) and attach to your remittance preferably by cheque made payable to the Commissioner of Inland Revenue.

The Tax collectable each month must be remitted by the 15th day of the following month. Failure to remit will incur a penalty of 10% of the amount deducted or $10.00 whichever is the greater plus interest at the rate of one half percent per month calculated for each month during which any part of the amount was not paid on the largest amount that had not been paid at any time in that month.

Guidance Notes

Column 1. The sales of all goods which are exempted from tax must be entered.

Column 2. The sales of all goods subject to retail sales tax must be included.

Column 3. The tax calculated on sales figure in column (2).

Column 4. The Month in which tax was collected.

RÍKISSJÓÐUR

SÖLUSKATTSSKÝRSLA
GREIÐSLUSKJAL

FRUMRIT

Lögheimilissveitarfélag	Nafnnúmer/Fyrirtækisnr.	Atvinnugrein	Skírteinisnúmer	Sveitarf. starfsstöðvar	Fyrir tímabilið

Nafn og heimili rekstraraðila	Fyrirtækisnúmer
Nafn og heimili fyrirtækis	Rekstrardeild
Gjalddagi	Sölugjald ásamt söluskattsskýrslu skal skila mánaðarlega til innheimtumanns. Gjalddagi er 15. dagur hvers mánaðar og eindagi 10 dögum síðar. Skila skal skýrslu um heildarveltu og frádrátt þótt ekki hafi verið um söluskattsskylda sölu að ræða.

					Samtals
A HEILDARVELTA	Heildarsala	Til eigin nota		Annað	
B FRÁDRÁTTUR	Sala skattfrj. vöru og þjón.	Sala til endurseljenda	* Keypt með sölugj.	** Annað	

* Skýring	C SÖLUSKATTSSKYLD VELTA A÷B	
** Skýring	SÖLUGJALD 16,666% AF C	
Það vottast að skýrsla þessi er gefin eftir bestu vitund og er í fullu samræmi við bækur fyrirtækisins.	VIÐURLÖG	
	GREITT ALLS	

kvittun - stimpill

.... Dagsetning .... Undirskrift

Sjá leiðbeiningar og fyrirmæli á baki 2. samrits.
Sjá tilkynningu til yðar frá Hagstofu Íslands á baki 2. samrits.

7510 25000X3 Gutenberg

Fig. 2 Retail Sales Tax Return, Iceland

Fig. 3

S.T. 6

GHANA CUSTOMS AND EXCISE

RETURN OF SALES TAX FOR THE MONTH OF

.............., ...19.....

Collection..............................

M.
Registered No. W..............................
I.

Name and Address of Wholesaler or Manufacturer or Importer ....

....

....

Nos. of Invoices Issued		Total Value of Invoices		Amount of Sales Tax	
From	To	₵	p	₵	p
			Total ₵		

I.............................. *Proprietor
Director
Secretary
Duly authorised person

of.............................. hereby declare that
(Name of Registered erson)

the amount of Sales Tax payable during the month of..............................

by the registered business stated above is.............................. Cedis

and.............................. Pesewas. I further declare that the total value shown above includes the value of any gifts, transferes or other taxable disposals made by the registered business during the month.

Attach, a Schedule of all the entries contained in my books as required by Section 4 of the Sales Tax Act, 1965.

Dated..............................19.....

....
Signature

FOR OFFICIAL USE ONLY

Miscellaneous Receipt No.............................. Dated..............................19.....

for the sum of..............................

....
Cashier

Arrow Press, Accra

Fig. 4

S.T. 3.

REPUBLIC OF KENYA

1. Registration No. ....

Name ....

Address ....

Date Stamp

SALES TAX RETURN

Entry Number

COMMISSIONER FOR SALES TAX

P.O. BOX 49070

NAIROBI

2. Period covered by this return From ...., 19........ To.........................., 19........

Sales Tax Rate	Taxable Sales	Dr. Payable		Cr. Payment		Total Paid
		Tax	Penalty & Misc.	Tax	Penalty & Misc.	K.Sh.
3.	4.	5.	6.	7.	8.	9.

I..

Print or Type Name

hereby certify that the information in this return is true, correct and complete.

....

Signature *Position*

STATEMENT OF ACCOUNT (OFFICIAL USE ONLY, EXCEPT ADDRESS BELOW)

Date	Entry No.	Dr. Payable		Cr. Payment		Balance	
		Tax	Penalty & Misc.	Tax	Penalty & Misc.	Dr.	Cr.

Explanation of Balance

To Receive Statement of Account, show your return address here. →

Fig. 5

THE UNITED REPUBLIC OF TANZANIA
TREASURY

MONTHLY SALES RETURN

(For Sales Tax purposes)

Form ST. 02

Name of Trader:.. Month...19.....

Delivery Note Numbers (from—to)	Description of Articles	Total Taxable Value Shs.	Cts.	REMARKS

TRADER'S DECLARATION

I HEREBY DECLARE that the above particulars include all taxable Sales during the above mentioned period. I am aware that:

(a) All amount of tax unpaid on the due date are liable to an additional surcharge.

(b) Any person making any false statement or producing any false document in any matter connected with the tax is liable to the penalties specified in the Sales Tax Act, 1969.

Cheque No..............of..................for Shs...............attached.

Date.............................. ....
Stamp and Signature of Trader

			Shs.	Cts.	Total Taxable Value
1.	TOTAL GROSS SALES				
2. *Less* Value of Non-Taxable Sales	Sales to Registered Dealer Certificate No.				
	Export Certificate				
	Exemption Certificate				
3.	TOTAL NON-TAXABLE SALES				
4.	TAXABLE SALES (Line 1 *less* line 3)				
5. SALES TAX TARIFF	Item No............................				
	Rate..................................				
6.	TOTAL SALES TAX DUE (Rate × line 4)				

TOTAL REMITTANCE ... Shs. | Cts.

Name of Trader ....

File No. ....

Remarks..

Date ....

FOR USE OF TREASURY/R.F.O.

Examined by..

Remarks ....

....

FOR I. R. O.'s USE

E.R.V. No. ....

Date ....

....
Signature of Internal Revenue Officer

Station..................................

SEE OVERLEAF FOR INSTRUCTIONS

TO BE SUBMITTED IN TRIPLICATE

Govt. Press, Dsm.

Form No. ST 4
Stocked by Controller of Customs
Scpds C519 4/75

REPUBLIC OF ZAMBIA

SALES TAX RETURN

(Sales Tax Act, 1975)

To:

The Collector of Sales Tax,

P.O. Box ....

....

....

Full Name	Address of Licensed Premises	Cert. of Reg. No.

	K	n
1. Total sale value of taxable goods and/or services brought forward from previous return		
2. Total sale value of all taxable goods and/or services manufactured or rendered during the period to which this return re tes		
Total of (1) and (2)		
3. Total sale value of taxable goods and/or services on hand at the end of the period to which this tax return relates		
4. Total sale value of taxable goods and/or services sold or otherwise disposed of on which Sales Tax is payable		

I, the undersigned, being the manufacturer/owner..............................(other authorised person), do hereby declare that the details given above and in the schedule overleaf are correctly stated in respect of all business carried on by me or us during the month ended.........................., 19....

Date.............................

....
Signature

....
Designation of Signatory

Form No. ST.5

REPUBLIC OF ZAMBIA

Page No. .... of .... Pages

BILL OF ENTRY FOR THE PAYMENT OF SALES TAX ON IMPORTED GOODS

Port of.	Country of Supply:	African Coastal Port:	Method of Transport: *Rail/Road/Air/Ship	Carrier's Advice or Manifest Number .... Packages	Agent:
*On First Importation Removed in Bond from	Country of Growth, Production or Manufacture	Gross Weight:	R.I.B. Number:	Date:	Importer:

Packages		Particulars of the Goods							Supplier/Shipper:
Identifying Marks and Numbers	Number and Type of Packages	Description of †Goods in accordance with the nomenclature of the Sales Tax Tariff	Statistical Unit	Weight, Volume or Number	Tariff Item	Taxable Value K	Amount of Tax Payable K	n	
						Amount b/fwd			
Total ∴		*Note*—All relevant sections of this entry must be fully completed.				*Sub-Total*			Bill of Entry Number and Date
						Add late payment penalty			
						Total			

Notes:

1. The taxable value of goods is that determined by the provisions of the Sales Tax Act, 1975.
2. The Customs Entry must always accompany this entry.
3. Invoices and other documents necessary to support the details of the Taxable Value must be attached hereto.

I, the undersigned .... being the *Importer/Importer's Agent (or other authorised person), do hereby declare that all the particulars given in the entry are true and complete.

Signature .... Date ....

Importer/Agent *Officer of Customs*

*Delete where inapplicable.

†Unless the item is specifically mentioned in the Tariff, a full description of its nature must also be given.